

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 3, 2017/2018

**BME1024 – INTRODUCTORY MACROECONOMICS**

(All sections / Groups)

30 MAY 2018

9.00 A.M. – 11.00 A.M.

(2 Hours)

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### INSTRUCTIONS TO STUDENT

1. This Question paper consists of 2 pages with 4 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

- a) Explain the differences between the nominal GDP and real GDP. Construct a numerical example of (i) nominal GDP and (ii) real GDP (15 marks)
- b) Based on the data given in Table 1, calculate the economic growth rate for each year from 2012-2015 and explain its trend. (10 marks)

Year	Real GDP (billion dollars)
2011	8020
2012	8187
2013	8432
2014	8871
2015	8900

Table 1

**(Total : 25 marks)****QUESTION 2**

- a) Based on the Aggregate Expenditure (AE) model, use a  $45^\circ$  - line diagram to illustrate macroeconomic equilibrium for an open economy. Your diagram should include the aggregate expenditure (AE) function and the level of equilibrium of real GDP. (10 marks)
- b) Define the multiplier effect. Explain how MPC will affect the size of multiplier. (10 marks)
- c) Based on the relationships among income, consumption and saving, show that the sum of the marginal propensity to consume (MPC) and the marginal propensity to save (MPS) must always equal to 1. (5 marks)

**(Total : 25 marks)****Continued...**

**QUESTION 3**

- a) Based on AD-AS diagram, explain the effects of central government's decision of increasing taxes to the economy. (10 marks)
- b) Bank M just opens its newest branch at Bukit Beruang. For the first day of its operation it receives RM 50000 deposits from the public. Meanwhile, it has to fulfil 15% reserve requirement. Use a T account to discuss these two transactions. (15 marks)

**(Total : 25 marks)**

**QUESTION 4**

- a) Explain how the balance of current account is calculated using a numerical example. (15 marks)
- b) Explain how an equilibrium exchange rate is determined in the foreign exchange market under a flexible exchange rate system. (10 marks)

**(Total : 25 marks)**

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